



Title: Title I, Payroll/Personnel Manual
Chapter: 28, Section 2, Tax Formulas (TAXES)
Bulletin: TAXES 04-32, Federal Income Tax Withholding
Date: December 17, 2004
To: Holders of TAXES
Personnel User Groups
Agency Personnel Offices

This bulletin provides information concerning (1) Federal income tax withholding formula changes for Calendar Year (CY) 2005 and (2) submission of Form W-4, Employee's Withholding Allowance Certificate, to claim total tax exemption from Federal income tax for CY 2005.

Federal Income Tax Withholding

Effective January 1, 2005, the Federal income tax withholding tax formula will change. The Single or Head of Household and Married withholding tables will change and the exemption allowance will increase from \$3,100 to \$3,200.

Beginning with salary payments for Pay Period 25, Federal income tax will automatically be withheld in accordance with the new formula. No action on the part of the employee or the personnel office is necessary.

To view the updated tax formula, go to the NFC Home Page (www.nfc.usda.gov) and click **Pubs & Forms**. Then on the Pubs & Forms page left-hand menu, click **Tax Formulas** and select **Federal** from the map provided. Changes to the tax formula are identified by "►◄".

W-4, Employee's Withholding Allowance Certificate

Employees who intend to claim total Federal tax exemption for CY 2005 must submit a new W-4 prior to February 20, 2005. Effective Pay Period 4, employees who claim total exemption for CY 2004 and who have not filed a new W-4 for CY 2005 will have Federal taxes withheld as single taxpayers with zero withholding allowance. A W-4 filed for the prior year does not extend tax exemption into CY 2005. A new W-4 must be filed for CY 2005.

Inquiries

For questions about NFC processing, contact the Payroll Operations Branch at **504-255-4630**. Please refer questions about system access and other system-related issues to Customer Support at **504-255-5230** or via e-mail at customer.support@usda.gov.

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Federal Income Tax Withholding Formula

Withholding Formula ►(Effective Pay Period 25, 2004)◄

1. Subtract the nontaxable biweekly Thrift Savings Plan contribution from the gross biweekly wages.
2. Subtract the nontaxable biweekly Federal Health Benefits Plan payment from the amount computed in step 1.
3. Add the taxable biweekly fringe benefits (taxable life insurance, etc.) to the amount computed in step 2 to obtain the adjusted gross biweekly wages.
4. Multiply the adjusted gross biweekly wages by 26 to obtain the annual wages.
5. Determine the exemption allowance by applying the following guideline. Subtract this amount from the annual wages to obtain the taxable income.

Exemption Allowance = ►\$3,200◄ x Number of Exemptions

6. Apply the taxable income computed in step 5 to the following table to determine the Federal income tax withholding.

Tax Withholding Table
Single or Head of Household

If the Amount of Taxable Income Is:		The Amount of Federal Income Tax Withholding Should Be:			
Not more than \$2,650		\$0			
Over:	But Not Over:	Of Excess Over:			
► \$ 2,650.00	\$ 9,800.00	\$ 0	plus	10%	\$ 2,650.00
9,800.00	31,500.00	715.00	plus	15%	9,800.00
31,500.00	69,750.00	3,970.00	plus	25%	31,500.00
69,750.00	151,950.00	13,532.50	plus	28%	69,750.00
151,950.00	328,250.00	36,548.50	plus	33%	151,950.00
328,250.00	and over	94,727.50	plus	35%	328,250.00◄

Married

If the Amount of Taxable Income Is:		The Amount of Federal Income Tax Withholding Should Be:			
Not more than \$8,000		\$0			
Over:	But Not Over:	Of Excess Over:			
► \$ 8,000.00	\$ 22,600.00	\$ 0	plus	10%	\$ 8,000.00
22,600.00	66,200.00	1,460.00	plus	15%	22,600.00
66,200.00	120,750.00	8,000.00	plus	25%	66,200.00
120,750.00	189,600.00	21,637.50	plus	28%	120,750.00
189,600.00	333,250.00	40,915.50	plus	33%	189,600.00
333,250.00	and over	88,320.00	plus	35%	333,250.00◄

7. Divide the annual Federal income tax withholding by 26 to obtain the biweekly Federal income tax withholding.